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POSTAL RATE ADJUSTMENT
OFFICE OF THE SECRETARY

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 21
(August 30, 2000)

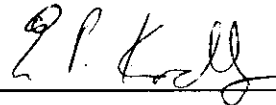
The United States Postal Service hereby provides the responses of its witnesses to Presiding Officer's Information Request No. 21, dated August 23, 2000. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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August 30, 2000

**RESPONSE OF POSTAL SERVICE WITNESS DANIEL TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 21**

POIR 21/1. In response to Order No. 1294 the Postal Service provided test year cost estimates rolling forward actual FY1999 costs. That presentation also revised the final adjustments. LR-I-419, 420. In response to POIR No. 16 the Postal Service provided test year revenues estimates based on hybrid (FY 1999 Qtr. 3 - FY 2000 Qtr 2) billing determinants. Is it appropriate to use the final adjustments initially provided in response to Order No. 1294 consistent with the hybrid billing determinants provided in response to POIR No. 16? If not, please provide final adjustments to test year costs that would be appropriate assuming the use of hybrid-billing determinants for rate and revenue calculations.

RESPONSE:

The final adjustments presented in LR-I-419 and LR-I-429 are just as appropriate to use in conjunction with test year revenue estimates derived employing the hybrid billing determinants as they would be if used in conjunction with revenue estimates derived employing FY 1999 billing determinants, as long as the test year volume forecast/mail mix inputs into the final adjustment models are consistent with the corresponding volumes and mail mix used in the test year revenue estimates. Only two instances have been identified in which this condition does not hold, and in which, therefore, a shift from FY 1999 billing determinants to hybrid billing determinants would create the need for appropriate modification to the final adjustment models. For the final adjustments which result when the volume forecast/mail mix inputs are reconciled (in those two instances) to the corresponding volume distributions upon which the hybrid test year revenue estimates are based, please see LR-I-483 (USPS version) and LR-I-484 (PRC version). The only two instances in which changes appear in these models (relative to LR-I-419 and LR-I-429, respectively) are:

1. Parcel Post volume distributions.
2. First-Class single-piece mail weight distributions.

In both instances, the changes in mail mix (relative to the July 7th update) have no effect on total volume, but shift volume from higher cost to lower cost categories. The ultimate result is therefore to reduce the Order No.

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PRESIDING OFFICER'S INFORMATION REQUEST NO. 21**

1294 test year cost estimates after application of final adjustments, consistent with the lower test year revenue estimates associated with application (in these instances) of the hybrid billing determinants. The bottom line effect on the Postal Service's Order No. 1294 rollforward would be to reduce estimated test year final adjustments by \$35.4 million, and it is my understanding that this would reduce the revised POIR No. 14 revenue requirement (i.e., with contingency) by 1.025 times that amount, or \$36.3 million.

DECLARATION

I, Sharon Daniel, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


SHARON DANIEL

Dated: 08-30-00

Response of United States Postal Service Witness Degen
to
Presiding Officer's Information Request #21

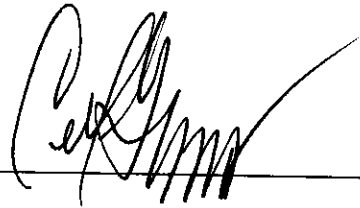
POIR/USPS-2. Refer to the response of the United States Postal Service to questions raised at the hearing on August 3, 2000 regarding Standard B special mail. The Service explains that the increase in Standard B Special mail unit cost between 1998 and 1999 may be in part due to "a change in endorsement requirements for Special Standard." Please explain in detail what these changes were and how they contributed to an increase in IOCS Special Standard observations.

Response:

The endorsement change was that the Special Standard rate marking had to be in the postage area rather than just anywhere on the piece. This endorsement change was part of the R97-1 implementation on January 10, 1999. (There was a grace period until January 10, 2000 before it was mandatory.) The way it could have contributed to the increase in IOCS Special Standard observations was that it may have resulted in improved identification and, therefore, may have contributed to an increase in IOCS Special Standard observations. There may be other factors that have contributed to the increase. These will be discussed in my response to Order No. 1300.

DECLARATION

I, Carl Degen, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



Dated: 8/30/00

**Response of United States Postal Service witness Patelunas
to Presiding Officer's Information Request No. 21**

POIR 21

3. The Postal Service's original filing included Alaskan Air adjustment factors that were calculated in Library Reference I-59 for FY 1998, 1999, 2000, and the Test Year 2001. These adjustment factors were input into the rollforward in Witness Meehan's WP A-1, the base year 1998 manual input requirement. See Meehan W/P A-1 at 159. The base year Alaskan Air adjustment was applied to component 681, Alaskan Air Transportation, in the development of the B report. See Meehan W/P A-4 at 1-2. See also USPS LR-I-4 at 48 and 371.

The process to rollforward component 681 from the base year to the test year as shown in witness Kashani's workpapers, was to use the costs from the A report, in which component 681 was 100% variable. The Alaskan Air adjustment factors from LR-I-59 were then applied in the development of the B report separately for each fiscal year in the rollforward.

The updated rollforward provided by witness Patelunas in the Postal Service's response to Order No. 1294 treated component 681 differently than in the original filing. The update started with component 681, which already included the Alaskan Air adjustment. Witness Patelunas then rolled forward to the test year from FY 1999 the adjusted component 681 rather than rolling forward the component as 100% variable as was done in the original filing. Additionally, there is no further adjustment of component 681 using updated Alaskan Air factors in the B report as was done in the original filing.

Does the treatment afforded to Alaska Air in component 681 in the USPS response to Order No. 1294 represent a change in the rollforward methodology from the original filing? If so, please provide a justification for this change.

Please provide an update to LR-I-59 using actual FY 1999 costs showing the new Alaska Air adjustment factors for FY 1999, FY 2000, and the Test Year 2001.

Response

The treatment of the Alaska Air adjustment in the update resulting from Order No. 1294 is different from the original filing. To incorporate the Alaska Air adjustment in the FY 1999 Cost Segments and Components report, the Alaska Air

**Response of United States Postal Service witness Patelunas
to Presiding Officer's Information Request No. 21**

Response

costs were adjusted before they were entered into the cost model. As such, there was no need to make the adjustment in the B Report. Likewise, when the Alaska Air costs were then rolled-forward, the adjustment had already been made and there was no need to further adjust the costs. Although the result is different from what would have resulted from the original treatment, as shown in Attachment I that accompanies this response, the test year difference for classes, subclasses and special services is minor.

The requested update of USPS-LR-I-59 using the FY 1999 costs, as well as the electronic version of Attachment I, is provided in USPS-LR-I-475.

CRA CLASS ALASKA NONPREF AIR

				FY 2000				FY 2001				Order No. 1294 Update	Difference
				\$(000) WS 14.4 C3 Comp 681	Cost Level Adjusted	Volume Adjusted	0.0777 Total Adjusted	Cost Level Adjusted	Volume Adjusted	0.0788 Total Adjusted			
1	FIRST-CLASS MAIL:												
2	SINGLE-PIECE LETTERS	101	297	300	299	23	301	298	23	22	1		
3	PRESORT LETTERS	102	-										
4	SINGLE-PIECE CARDS	104	-										
5	PRESORT CARDS	105	-										
6	TOTAL FIRST-CLASS		95	300	299	23	301	298	23	22	1		
7	PRIORITY MAIL	110	843	850	870	68	874	955	75	74	1		
8	EXPRESS MAIL	111	-										
9	MAILGRAMS	112	-										
10	PERIODICALS:												
11	IN-COUNTY	113	-										
12	OUTSIDE COUNTY:												
13	REGULAR	117	144	145	150	12	151	153	12	11	1		
14	NON-PROFIT	118	39	39	37	3	37	36	3	3	(0)		
15	CLASSROOM	119	2	2	2	0	2	2	0	-	0		
16	TOTAL PERIODICALS		185	187	189	15	190	191	15	14	1		
17	STANDARD MAIL (A):												
18	SINGLE-PIECE RATE	125	-	-	-		-	-					
19	COMMERCIAL STANDARD:												
20	ENHANCED CARR RTE	126	586	591	590	46	592	609	48	46	2		
21	REGULAR	127	519	524	488	38	490	503	40	44	(4)		
22	TOTAL COMMERCIAL		1,105	1,115	1,078	84	1,082	1,112	88	90	(2)		
23	AGGREGATE NONPROFIT:												
24	NONPROF ENH CARR R	131	2	2	2	0	2	2	0	-	0		
25	NONPROFIT	132	20	20	21	2	21	21	2	2	(0)		
26	TOTAL NONPROFIT		22	22	23	2	23	23	2	2	(0)		
27	TOTAL STANDARD (A)		1,340	1,137	1,101	86	1,105	1,135	89	92	(3)		
28	STANDARD MAIL (B):												
29	PARCELS ZONE RATE	136	98,801	99,690	108,553	8,435	108,955	118,712	9,355	9,164	191		
30	BOUND PRINTED MATTE	137	124	125	129	10	129	137	11	11	(0)		
31	SPECIAL STANDARD	139	112	113	117	9	117	118	9	9	0		
32	LIBRARY MAIL	140	24	24	25	2	25	25	2	2	(0)		
33	TOTAL STANDARD (B)		99,061	99,953	108,823	8,456	109,226	118,993	9,377	9,186	191		
34	US POSTAL SERVICE	142	214	216	203	16	203	197	16	15	1		
35	FREE MAIL	147	-										
36	INTERNATIONAL MAIL	161	-										
37	TOTAL DISTRIBUTION KEY		101,727	102,643	111,486	8,662	111,898	121,769	9,595	9,403	192		
38	OTHER		-	-	-	102,824	-	-	112,174	94,786	17,388		
39	GRAND TOTAL		101,727	102,643	111,486	111,486	111,898	121,769	121,769	104,189	17,580		

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POIR 21

4. In the Postal Service's response to Order No. 1294 witness Patelunas presented additional cost reductions from the Postal Service's planned "breakthrough productivity" initiatives. These cost reductions were implemented in the rollforward to the test year using seven new distribution keys, components 1456 through 1462. However, unlike the original cost reductions distribution keys, components 1439 through 1453, these new distribution key components do not receive a mail volume effect for FY 2000 or the test year.

Please describe the sources of the new components 1456 through 1462 and explain the reasons that these components do not receive a mail volume effect in the rollforward from FY 1999 to the test year.

Please provide an update that includes a mail volume effect.

Response

Components 1456 through 1462 are distribution keys used for the cost savings programs resulting from the joint Postal Service and Periodicals mailers effort that took place after the Request was filed. These cost savings occur only in the test year and the distribution keys were developed specifically for these programs in the test year; therefore, they do not and should not receive a mail volume effect in the rollforward. The sources for the distribution keys are:

<u>Component Number</u>	<u>Description</u>	<u>Source</u>
1456	Mail Prep	USPS-LR-I-332
1457	Bundle Breakage	MPA/USPS-ST42-8
1458	Aggressive Targets	DMA/USPS-2
1459	Line of Travel	MPA/USPS-ST42-4
1460	Memo of Understanding	DMA/USPS-1
1461	Additional AFSM Savings	DMA/USPS-ST42-2
1462	New AFSM Equipment	DMA/USPS-ST42-3

DECLARATION

I, Richard Patelunas, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Richard Patelunas", with a horizontal line underneath.

Dated: 8/30/00

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "E. P. Koetting", is written over a horizontal line.

Eric P. Koetting

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August 30, 2000